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ABSTRACT

This paper summarizes results of a hearing by the Advisory Committee on Student Financial Assistance in Atlanta, Georgia, on the delivery and disposition of higher education student financial assistance funds. Seventeen individuals offered testimony. They included representatives of guarantee agencies, the lending community, the financial aid community, and an independent loan collections firm. Historically black, private, proprietary, and public educational institutions were also represented. The testimony fell into five general categories: (1) access and student information needs; (2) simplification of the loan application form; (3) defaults and "pro rata" refunds; (4) institutional lending; and (5) Multiple Data Entry (MDE)/Title IV processors. Comments on access and student information needs noted the different ways that outreach and information efforts were not reaching targeted populations. Discussion of simplifying the Stafford Loan form noted the need to clarify while meeting the information needs of different states. Discussion of defaults showed some consensus among witnesses that reducing defaults required a team effort of all involved parties. Remarks about institutional lending fell on both sides of questions about removing restrictions on institutional lending. Witnesses testifying on MDE and Title IV processors encouraged the implementation of full Title IV processors so that collecting data for student aid eligibility could be accomplished with one form free of charge to the student. (JB)

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REPORT ON STUDENT FINANCIAL AID ISSUES HEARING

ED357691

Introduction

On November 16, 1988 in Atlanta, the Advisory Committee on Student Financial Assistance conducted an open hearing in conjunction with the fall convention of the National Council of Higher Education Loan Programs. Members of NCHELP and other interested parties were invited to testify on a range of topics associated with the delivery and disposition of student financial assistance funds.

Seventeen individuals offered testimony. They were representatives of guarantee agencies, the lending community, the financial aid community, and an independent loan collections firm among the witnesses. Historically black, private, proprietary, and public educational institutions were also represented.

The testimony to the Advisory Committee fell into five general categories:

* Access/Student Information Needs
* Simplification of Stafford Loan/Single Stafford Application Form
* Defaults and Pro Rata Refunds

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* MDE/Title IV Processors

The remainder of this report summarizes the substance of the oral comments.

Access/Student Information Needs

Three individuals commented on this area. One presenter spoke specifically about the failure of financial aid information reaching disadvantaged student populations and recommended that early awareness materials should be funded by the Department of Education and must be sensitive to ethnic background. Two of the witnesses commented that early awareness does not necessarily mean performing needs analysis for students many years prior to attending college. Nonetheless, outreach efforts are necessary and have been very successful as in the Cal-SOAP program in California.

The testimony also included the comment that more Black men are in prison than in school, constituting greater cost to the government in economic and human terms than financing an education. The same testimony indicated that, for disadvantaged minorities, graduating from high school does not necessarily equate to improved opportunities. Consequently, students drop out as a method to deal with their frustrations. The education system can address this matter by focusing on building self-

esteem as well as academic skills in these young people.

Simplification of Stafford Loan/Fingle Stafford Application Form

One presenter discussed simplification of the Stafford Loan Program. He suggested that the negative impact on minorities and first generation college students of the 1981 elimination of the $30,000 adjusted gross income eligibility ceiling has been overlooked. Further, the program has become too complex and access has been lost as a result. He recommended that the program revert to its 1976 iteration.

In a discussion about designing a single Stafford Loan application form, two other presenters cautioned that clarity should not be sacrificed for simplicity especially given the unique needs of individual states. Flexibility is therefore necessary. These witnesses are working on an NCHELP committee to devise a single Stafford Loan application; this group offered its assistance to the Advisory Committee. To develop such a form, they recommended that revisions should not be implemented until it is clear that the system will work for all program participants, will be cost effective, will assure that all parties are capable of upholding their responsibilities, and will have a realistic implementation schedule.

Another witness recommended that having the state agency

guarantee all Stafford loans issued to students attending institutions within the state without regard to students' state residency would be cost-effective, the proliferation of forms, and enhance service and delivery of aid. If this is not possible, permitting an institution to choose its own guarantee agency would have the same effect.

Defaults and Pro Rata Refunds

Six of the seventeen presenters commented in this category. There was some consensus among the witnesses that reducing defaults requires a team effort involving the guarantors, educational institutions, lenders, students, and accrediting agencies.

Four individuals expressed objections to the Notice of Proposed Rulemaking directed at Stafford Loan default reduction and the pro rata refund policy. Because of institutional inability to control the loan approval and repayment processes, three witnesses opposed the 20% institutional default rate threshold for potential L,S&T action. All three agreed, however, that a high percentage of student loan defaults at an institution is an appropriate mechanism to trigger review of the institution. Completion rates as a trigger for L,S&T were also questioned. One challenged the pro rata refund by citing the already stringent accrediting agency requirements, the proposal's

insensitivity to the institution's marginal costs, and the possibility of encouraging more borrower drop outs. Recommendations included giving the institution the authority to deny loans, participate in loan collections, and disburse funds due to the student in monthly installments. A call was also made for better information to institutions about borrowers who are delinquent or in default.

One presenter suggested that default rates are a result of a system that permits open participation, asserting that a school's profit does not depend on the educational success of its students and abuses are most consistently found among proprietary schools. This witness recommended that accrediting agencies tighten up their requirements and share the financial risk in the Stafford Loan Program. In addition, eligibility for correspondence schools should be eliminated along with programs of less than one year's duration. He stated his support for delayed first disbursements, a tightened refund policy, and required publication of pre-enrollment consumer information in career-oriented programs, such as completion rates, job placement rates, and starting salaries.

Another individual described the recent experiences of a number of borrowers who were attempting to repay their loans but could not obtain such necessary information as what entity now held or serviced the loan and the outstanding balance. Even with

the intervention of the institution on the borrowers' behalf the information was almost impossible to obtain. Recommendations included creating a think tank to address defaults, improving loan servicers' services by more careful training of front line staff, and installation of "800" telephone numbers.

One witness commented that the underlying reason for defaults has not been addressed. That is, defaulters are either unemployed or underemployed. This is caused by training that does not result in a job. Once a defaulter obtains work, s/he becomes a paying defaulter. As long as there is a "mismatch" between the education and the job market, defaults will continue apace. The presenter recommended that all parties work together to prepare students to meet the work force needs of the nation.

Amendments to the Tax Reform Act of 1986 that would preclude students attending proprietary institutions from participating in an educational savings bond program was deemed inappropriate by one of the witnesses discussing the subject of defaults.

Institutional Lending

The Advisory Committee on Student Financial Assistance is currently conducting a study on institutional lending. Five of those who provided testimony to the Advisory Committee made statements about this issue. Three represented either guarantors

or lenders and were opposed to removing current restrictions on institutional lending. Two represented educational institutions and were in favor of removing restrictions.

Expressing opposition to institutional lending, one witness indicated that removing the restrictions would constitute a divisive policy. For example, to provide universal access to Stafford Loans, commercial lenders must have a balanced portfolio. Institutional lending may preclude this by decreasing commercial lenders' share of low-risk borrowers which could discourage commercial lenders from issuing loans to higher risk students. In addition, institutional lending circumvents the prohibition against lenders paying points, premiums, and inducements in order to secure loans. Greater institutional lending activity could also increase default rates if institutions choose to service their own loans and if proprietary schools with the highest default rates become Stafford lenders. Finally, institutional lending may lead borrowers to challenge their legal obligation to repay their loans if they are dissatisfied with the education they received.

Another witness regarded removing the restrictions as unnecessary because there is currently no access problem and that schools are permitted to lend to 50% of their undergraduate student body. Many stresses already exist in the Stafford Loan program including reduced yields and more requirements for

lenders. Expanded institutional lending may result in small and medium volume lenders dropping out of the program.

In testimony favoring the elimination of institutional lending restrictions, one individual recommended that only those schools that have demonstrated their administrative capability be permitted to participate. The university represented by this witness is in the process of studying the feasibility of becoming a Stafford lender and offered to share, once completed, the study results with the Advisory Committee. Another proponent stated that institutions should have the opportunity to compensate for reduced Stafford Loan access if lender participation changes and access becomes a problem in the future. This witness also indicated that lending under the Stafford Loan Program makes an institution much more responsible for defaults.

MDE/Title IV Processors

Three witnesses offered comments in this area. Each encouraged the implementation of full Title IV processors so that collecting data for student aid eligibility could be accomplished with one form that is free of charge to the student. One individual suggested that the Department of Education should absorb more of the costs through the contracts with MDE processors. Institutions might also bear a portion of the costs. Two individuals urged the development of a National Student Data

Base as a necessary component for using Title IV processors. An electronic mailbox concept, according to one witness, would compensate for the differences in administrative support services among institutions and facilitate the application process when students are applying for admissions to multiple institutions.

It was also suggested that simplifying the forms is as important as making them available without charge. One witness distinguished between collecting data and applying for a loan, stressing that all applicants should bit automatically be viewed as potential borrowers.

Standardization of elements and output documents was recommended. One presenter noted, however, that simplification cannot be achieved unless the system itself becomes less complex. This witness referred to special treatment of dislocated workers and displaced homemakers, determination of dependency status, collection of certain asset information, and continual modifications in verification edits and requirements.

One presenter recommended the elimination of a central processor. Two expressed their distress and concern over the ED MDE procurement process. One witness urged that selection of MDEs or Title IV processors be based on technical competency as well as bids, because the "government must be willing to pay fair, reasonable and competitive prices for quality services."